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ABSTRACT

Providing teacher background on the concepts of wages and profits, paying particular attention to how elementary children experience and learn these concepts, this document presents 3 teaching units. The grade K-2 unit, "A Job Well Done," provides activities which focus on different types of jobs and the intrinsic and extrinsic rewards they provide. Activities include brainstorming, learning vocabulary words, reading, dramatic play, drawing, mural-making, writing, memory games, and word problems. The grade 3-4 unit, "Wonderful Window Washers," provides a simulated business experience where students take roles as consumers, managers/entrepreneurs, and workers for a window washing company. The grade 5-6 unit, "Profit Motivates," employs group problem solving situations, field trips to local businesses, a bulletin board, and crossword puzzle activities in order to teach children about the profit motive. (JDH)

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THEME: WAGES AND PROFIT

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THEME: WAGES AND PROFIT

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DIRECTIONS

Incentives play a vital role in a market economy. Consumers can more fully satisfy their needs and wants if they use price information to help manage their limited budgets. Workers can earn higher incomes if they work where their productivity is highest and keep alert to alternative job-market opportunities. Business owners or operators can make larger profits if they produce a good or service desired by the public in the least costly manner. Prices, *wages*, and *profits* serve as motivating forces in directing the energies and actions of people.

Since elementary students do not work for a living or run a business but purchase many consumer goods and services, they are more familiar with the importance to the economy of consumer prices than with the importance of *wages* and *profits*. Strictly speaking, *wages* are also a price—the price paid for the use of labor resources. In the consumer or product markets, prices reflect how much a person has to give up (the opportunity cost) to obtain a good or service (e.g., bicycle, haircut, carnival ride). Similarly, in the resource or factor markets, the *wage* rate reflects the price that business or government must pay (the opportunity cost) to obtain the needed labor resources (e.g., steelworkers, doctors, secretaries). Teachers should help students understand the meaning of *wages* and their relationship to markets and opportunity cost, when *wages* are viewed as prices.

The term, *"wages"* is used here as a general descriptor for compensation for labor. In practice, *wages* may be received in many forms, such as hourly *wages*, monthly salaries, fringe benefits, commissions, or bonuses. Some discussion of these practical differences may clarify the general terms, *"wages"* or even *"wages* and salaries." For most households, *wages* and salaries are the most important prices in the economy since they are usually the only source of income. In fact, an examination of national income shares over the past decade shows that *wages* and salaries account for 76 percent of national income compared to approximately 9 percent for corporate *profits*. Rents, interest, and proprietors' income (primarily *wages* and salaries for business owners), comprise the remaining 15 percent of national income.

One question often asked by students is, "Why do people receive different *wages*?" No doubt this question is impossible to answer without knowing the specific job circumstances. In general, *wages* differ greatly among nations or among workers in different industries because of varying productivity—the output per work hour. In the United States, for example, there are good capital resources, abundant natural resources, an advanced level of technology, and a healthy and well-educated labor force. All or some of these factors contribute to American workers being more productive than workers in less developed countries. These factors can also explain the high productivity and *wage* levels in certain industries. Workers in the computer industry are highly paid because the industry produces valued goods and services, uses advanced technology and new capital equipment, and draws on the productive "human capital" of a knowledgeable and trained labor force.

There is a fundamental relationship between productivity and the real *wages* (adjusted for inflation) that workers receive. Of course, this relationship may be influenced by other forces. Unions, for example, may raise the *wages* of its workers over the *wages* of non-union workers in an industry. But even this action has a limit. If the increased *wages* are not justified by productivity increases, then employment of union workers will tend to decrease. If productivity increases in an industry, then the real *wages* and incomes of both unions and non-union workers will tend to increase.

Wages are strong signals to workers or labor resources to shift to other jobs in a market economy. People who want to earn higher *wages* will be attracted to more productive industries from those less productive. Entry into a highly productive industry or a high-paying occupation may require special training, education, mobility, and possibly the acceptance of job risks. Individuals, therefore, have to decide whether they are willing *and* able to make the sacrifice (opportunity cost) in order to receive higher *wages* or salaries. These career decisions are especially important to high school and college graduates planning to enter the work force. As elementary students examine career possibilities, an understanding of this *wage*-productivity relationship may encourage them to expand their skills to be better prepared for the future demands of the job market.

Profits, too, are a prime mover for the economy. Although *profits* are a small share of national income, they are probably the most important incentive. It is the expectation of *profits* that motivates entrepreneurs or business managers to obtain the necessary labor, capital, and raw materials for the production of a product in the first place. *Profit* expectations challenge businesses to continue to find the least costly way to produce the good or service. In other words, through *profits*, the market system rewards businesses which use resources productively and penalizes businesses which use resources wastefully.

Defining *profit* is a difficult task since there are so many meanings commonly used in the media. *Profits*

(continued to page 8)

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K-2

A JOB WELL DONE

by Lois Bouchard

Dr. Lois Bouchard has taught elementary school through graduate school. She teaches Freshman Composition at Tufts University and is also a free-lance writer, a poet, a writer of fiction, and a consultant.

Wages and Profit

If your students live on farms, they probably understand why people work. They watch and help with the preparation of soil and the planting of seeds. They watch food grow and ripen. Later, they pick and eat the harvest. The incentive to work is clear to people who grow their own food.

If your students do not live on farms, the work they observe is probably work for *wages* or for *profit*, the necessity of which is not as obvious as that of growing food. However, young as your students are, they already glimpse the world of payment, and can benefit from an understanding of it. They can understand that you, their teacher, perform services for a salary. They can observe the workings of a local drug store, where the owner rents space, buys drugs and sundries, builds new shelves, sells goods, provides services, and then takes *profit* home. They can understand that the owner of the land and the building receives payment (rent) from the drugstore owner.

By earning *wages* (from labor), *profits* (from business), or rent (from land), people buy food and other goods and services. Meanwhile, they are sharing their labor, capital, or land—their factors of production—with other people. Thus, they are contributing to the common economic system.

Goals

The students will understand that:

1. Rewards give us the incentive to work. Sometimes the reward is the pleasure of doing the work. Sometimes it is the payment we get when we finish. Sometimes it is both. A reward that makes us want to work is called an "incentive."
2. When people get paid for their work, they are providing valued labor services that contribute to the production of goods and services in our economic system.
3. There are many different ways of earning money in our economic system, such as working for *wages* and salaries, renting land, and running a business.

Teaching Activities

1. **Jobs for Pleasure, Jobs for Pay.** (Rewards and incentives, brainstorming, reading vocabulary words.) Help students brainstorm a list of school activities; e.g., reading, writing, math problems, drawing, painting, spelling, gym, chores, cleanup. Then, for each activity, ask them to think about what kinds of rewards they get. Try to think of two kinds of rewards: pleasure in doing the activity (intrinsic rewards); and rewards that are like payment (extrinsic rewards). For example, for reading, your students might list the fun of reading and a star you might give as a reward for finishing a book. For writing, they might list the advantages of learning to write and their family's pride when they learn more letters and words. For drawing, they might list the pleasure of making designs and pictures, and the feeling of achievement when they see their pictures displayed. For spelling, they might list the fun of remembering words and the grades they get on tests.

   Discuss with your students the difference between intrinsic and extrinsic rewards. (You might call them "doing" rewards and "payment" rewards.) To demonstrate the difference, expand the school activities to include home activities for which payment might be given. Make a chart on the board. Teach the word "incentive"—a reward that motivates us to work.

JOBS	REWARDS	
	Intrinsic	Extrinsic
Reading	fun	star
Cleaning up	not fun	can go to recess
Gym	fun	winning a prize
Feeding their pet	not fun?	allowance each week

2. **Job Lists.** ("Incentives," brainstorming, reading.) Extend the concept of incentives. Ask the students what jobs their parents have. Make a list down the side of the chalkboard. Have students think of additional jobs and add them to the list. Then ask which jobs their parents enjoy doing. Ask which jobs they themselves might enjoy doing. Next to those, write "for pleasure." Then ask which jobs their parents do for pay, or which job the students would do for pay. Add these to the list and next to those write "for pay." (Some jobs will warrant both.) Guide a discussion about the incentive to workers of *wages* and what is done with the income earned.

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3. **Child Labor.** (Payment for work, reading numbers, drawing, dramatic play.) Ask your students if they have ever done jobs for money. Some of them may have gone to the store for milk, cleaned their rooms, swept the sidewalk, etc. Ask how much they were paid. List on the board.

   Then ask your students what jobs they think they could do to earn money. They might list selling lemonade, watering lawns, etc. Ask how much they think they should get paid for each job. Discuss the range of pay for young children and the reason each job might pay a different *wage* (risk involved, skills needed, etc.).

   Have the children pick one of the listed jobs and draw themselves or someone else doing it. (Label the pictures and hang them up on a bulletin board, entitled "Jobs for Pay.")

   Give your students time to make hats and props for their chosen job. Then ask them to team up in groups of two or three and act out each person's choice.

4. **Earning and Spending.** (Adult jobs, spending pay, drawing, invented spelling.) Ask your students what job they might like to do when they grow up. Ask them to draw a picture of themselves or someone else doing that job.

   On the back of the picture, ask them to write down how they would spend their pay. (They need not spell the words correctly, or they can ask for help. For very young children, simply list their ideas on the board.) Discuss: rent or mortgage, food, new clothes, movies, a car, pets, presents, etc.

   Hang these pictures on a bulletin board.

5. **People In Your Neighborhood.** (Jobs as part of a system, mural-making, drawing, writing.) Using the list of jobs generated in the preceding activity, design with your students a Community Chart on a large piece of brown wrapping paper. Discuss the resources (land, labor, capital) needed for each job. Then have students make small colored drawings of the resources needed for their jobs on 4" x 4" pieces of paper—a derrick, a chef's hat, a teacher carrying books, a taxi, a stethoscope, etc. Label them. Then paste the pictures on the large wrapping paper. Also, sketch in streets, buildings, etc. Label the pictures and the buildings. Discuss the functioning of a community made up of different jobs and roles, and the ways that *wages* enable individuals to buy goods and services with money which financially supports other businesses.

6. **On The Farm, Off The Farm.** (Rent, drawing, writing numbers, memory game.) Buy or prepare 6 card-size pieces of paper for each student. Give out 3 pieces to each. Ask your students to pretend they own a farm. Ask them to draw a picture on each card of the vegetables, fruits, or grain that they would like to grow. Compare pictures and discuss. Label each.

   Now tell your students that each has decided to go to college to learn more about farming, history, literature, and science. Their college is far away, so they will have to live there. However, they do not want to let the farm run down or stand empty. They decide to rent out the land for four years.

   The man or woman who rents the farm is going to plant crops different from those the children had planned. Give out 3 more pieces of paper to each student. Ask them to draw a picture on 2 cards of the crops the new farmer will plant. Discuss owning and renting land. Explain that the new farmer has to pay for using land that he/she does not own. Suggest two or three figures for the amount of rent the new farmer will pay each month. Write them on the board. On the third piece of paper, have the children copy the figure they choose for the new farmer's monthly rent.

   Ask each student to team up with another student. They are to lay out their 10 pictures and 2 rent cards, face up. Then they are to turn them over and see how many they can remember.

7. **Pick a Business.** (Business, writing numbers, counting, word problems.) For this activity, you will need some oaktag and some magazines. Ask your class to choose a type of store that all of you could own and run together. It should be a store whose items are advertised widely in your magazines, such as toys, drugs, or clothing. Using the magazines, have students make a collage out of the items the store will sell. Have students count the number of items they found to sell in the store. Under each item, have them write a possible price.

   Have students cut out and paste pictures of employees on the collage. Help students label their *wages* or salaries realistically.

   If you still have time and room on the oaktag, have the students cut out and paste in pictures of customers. They might want to draw lines from each customer to the product bought.

   Discuss what is involved in owning a business. Suggestions for questions: How does the owner get the store space? Where does the owner get the items to sell in the store? How does the owner let people know what items are for sale in the store, and their price? How does the owner find people to work in the store? Why would people want to work in the store? If the owner has to pay for the merchandise in the store and *wages* to employees, how does he/she make a *profit*? Perhaps some of your students have anecdotes to tell.

   Give students some simple problems. For example, if you pay each employee $1 a week, and have 3 employees, how much do you pay out? How many tubes of toothpaste at 50 cents would you have to sell to pay one employee? If you sell four hairbrushes at $1 each (draw four dollar bills) and have to pay $2 for new lightbulbs (cross-off two), how much do you have left?

3-4

WONDERFUL WINDOW WASHERS

by Elaine Coulson

Elaine Coulson has taught third and fourth grade in the Ladue School District in St. Louis, Missouri. She is currently on a leave of absence to work as a curriculum director and visiting instructor at the Center for Economic Education at the University of Missouri—St. Louis.

Wages and Profit

Since most elementary students do not earn *wages* for working after school, it seems natural to think that the concept of *wages* and *profits* are too advanced for them to understand and too irrelevant to be important. Nothing could be further from the truth.

Many third- and fourth-graders do, in a sense, work for a *wage*. They earn an allowance for doing certain chores at home. They are also very much aware that their parents earn a *wage* income from doing some kind of useful work. It is, therefore, relevant for young students to understand the importance of *wage* income, especially since it is the major source of income for most households. With their insatiable appetite for more material wants, children should realize how *wages* act as incentives which both allow and limit people to buy the goods and services they need and want.

It is also important for young students to understand the relationship between *wages* and *profits* from the perspective of producer, consumer, and worker. The producer (business) purchases a person's labor in return for *wages*. This labor allows business to produce particular goods and services which have been demanded by consumers. Consumers, in turn, pay the producers money in exchange for the goods and services they want. This money is used to help the producer pay the workers' *wages*. In addition to *wages*, the producer must also pay other production costs, such as rent, utilities, insurance, taxes, raw materials, capital goods, etc. If there is money left over after all these expenses have been paid, then the business has made a *profit*. The result of making a *profit* or not making a *profit* has a serious effect on workers, consumers, and producers. Students can and should begin to understand the interrelationships among workers, producers, and consumers, and how *wages* and *profits* affect all three groups.

Goals

The students will:

1. Define *wages* as money paid to people in return for their work.
2. State ways in which workers use their *wages* (save, spend, pay taxes).
3. Explain that the prices consumers pay for goods and services reflect the costs of production.
4. Identify the costs of production, including labor costs *(wages)*.
5. Define *profit* as TOTAL REVENUE — TOTAL COST.
6. Explain the consequences to producers, consumers, and workers if a business does not make a *profit*.
7. Explain ways in which *profit* can be used (saved, reinvested).

Teaching Activities

1. Choose one or two students to play the role of **Wonderful Window Washer Service Agency Owners** (hereafter referred to as **3W Service Agency**). The teacher may decide to assume this role instead.
2. Divide the rest of the class into two equal groups. Group I will be **3W Service Agents.** Group II will be **Consumers.**
3. Introduce the **3W Service Agency Owners** to the class. Explain that these **Owners** have had a very successful business for several years. They hire workers to wash windows for **Consumers.** These workers are called **3W Service Agents.** Identify the students in Group I as **3W Service Agents** and instruct them to sit together as a group. Explain that the rest of the class will be playing the role of **Consumers,** people who want their windows washed. Identify the students in Group II as **Consumers** and instruct them to sit together. The teacher may wish to prepare name tags identifying the three roles.
4. Duplicate and distribute enough copies of the following "**Worker's Contract**" for each student in Group I. Explain that the contract is a written agreement between the **3W Service Agency Owners** and the **3W Service Agents.** Read the contract aloud and ask each **Owner** and **Agent** to sign. Collect and keep the contracts.

Worker's Contract

The 3W SERVICE AGENTS promise to wash windows for a wage of $3.00 per hour of work.

_____

(signature of 3W SERVICE AGENT)

The 3W SERVICE AGENCY OWNERS promise to pay each 3W SERVICE AGENT a wage of $3.00 per hour of work.

_____

_____

(signatures of 3W SERVICE AGENCY OWNERS)

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5. Duplicate and distribute **3W Service Agency Price Lists** to each **Agent.** Explain that these are prices which the **3W Service Agency** charges **Consumers** for washing windows. (1 hour — $5, 2 hours — $10, 3 hours — $15, 4 hours — $20)
6. Explain that in order for the **3W Service Agency** to be successful, it must have **Consumers** who are willing and able to pay these prices. Explain that Group II represents people who want their windows washed. Prepare an equal number of the four different **Consumer Demand Cards** below. The total number of **Consumer Demand Cards** should equal the number of students in Group II. Place each **Consumer Demand Card** in a separate envelope. Also in each envelope place enough play money (use $1.00 denominations only) so that the **Consumer** will be able to pay the **Agent** the correct amount. (For 1-hour cards, include 5 one dollar bills; for 2-hour cards, include 10 one dollar bills, etc.). Distribute one envelope to each student in Group II.

Consumer Demand Card You have a very small home with only a few windows. You will hire a 3W SERVICE AGENT for 1 hour.	**Consumer Demand Card** You have a very large home with many windows. You will need to hire a 3W SERVICE AGENT for 4 hours.
Consumer Demand Card You have a medium-sized house with several windows. You will hire a 3W SERVICE AGENT for 2 hours.	**Consumer Demand Card** You have a medium-sized house with a green house. You will hire a 3W SERVICE AGENT for 3 hours.

7. Clear a space in the center of the room. Explain that **Agents** and **Consumers** will meet in the open space (marketplace) and make transactions, exchanging services for money. Remind **Agents** to bring along their price lists so they will know how much to charge. Remind **Consumers** to bring along their envelopes containing their **Consumer Demand Cards** and play money. The teacher may want to demonstrate how a transaction should be made. The **Agent** should give the **Consumer** the price list and the **Consumer** should give the **Agent** the entire contents of the envelope to culminate the transaction. To reinforce math skills, **Agents and Consumers** should multiply each hour of work by $5.00 and count the money in the envelope to be certain it is correct. (The teacher may intentionally want to include the incorrect amount of money in some envelopes.)
8. Once transactions have been completed and exchanges made, the **Consumers** should return to their desks. **Agents** should be instructed to write their names on the envelopes and to take the envelopes to the **Owners** intact.
9. **Owners** should open each envelope, one at a time, and read the **Consumer Demand Card** to the class. Remembering that **Agents** are paid $3.00 an hour for washing windows, **Owners** should then calculate how much each **Agent** should receive as a *wage* income. The money used for *wages* should be returned to the envelope and given to the **Agent. Consumer Demand Cards** should be kept by the **Owners.** Follow the same procedure for each envelope and each **Agent.** The teacher may wish to have the whole class assist the **Owners** in determining the proper *wages* to pay **Agents.** This will be very good practice for learning multiplication facts and counting money.
10. The left-over money should be counted and the amount written on the chalkboard.
11. So far, the teacher has set the stage for a good deal of economic learning to take place. The success of the lesson, however, will depend largely on the quality of the debriefing discussion. This can be handled in several ways, depending on the capabilities of the students and preferences of the teacher. The debriefing questions may be used for large or small group discussions or could be used as a written assignment to assess student understanding.

DEBRIEFING QUESTIONS:

1. What did the **3W Service Agents** receive in return for their labor? (Money, *Wages).*
2. How was it possible for the **3W Service Agency Owners** to pay the **Agents** for their work? (Money came from the **Consumers).**
3. When a worker spends his/her *wages,* how does that help others? (It helps businesses pay expenses such as *wages* and make a *profit.)*
4. After *wages* were paid, the **3W Owners** had money left over. What other kinds of things do you think the **3W Service Agency Owners** have to pay for in their business? (Rent, utilities, insurance, taxes, buckets, sponges, detergent, squeegees, ladders, trucks, gasoline, etc.).
5. If, after paying all these other expenses, there is still money left over, we say that the business has made a *profit.* What do you think happens to this *profit*? (Reinvested in **3W Service Agency,** saved, spent in other ways).
6. What do you think might happen if the **3W Service Agency** did not make any *profit*? (Go out of business). How would this affect the **3W Service Agents?** (Lose jobs.) How would this affect the **Consumers?** (Would have to find someone else to wash windows for them.) How would this affect the **3W Service Agency Owners?** (Lose money.)
7. What might happen if the **3W Service Agency** made a lot of *profit?* (**Owners** might decide to expand the business, hire more **Agents,** give the **Agents** a raise, or perhaps even start a new kind of business.)

5-6

PROFIT MOTIVATES

by Stephanie Hirsh

Stephanie Hirsh is Consultant for Free Enterprise Education for the Richardson Independent School District in Richardson, Texas, where she has coordinated the development and implementation of economic education programs for grades K-12.

Wages and Profit

At some point during their lives, fifth- and sixth-graders have probably earned a *wage* for a job performed. These children should understand that a *wage* is the payment made to the factor of production, labor. A *wage* or salary acts as an incentive to labor to work in businesses to produce goods and services. *Profit* is the incentive offered to business owners and entrepreneurs for taking the risk involved in operating a business. When deciding what to produce and for whom to produce, the *profit* motive acts as an incentive to the entrepreneur to respond to the demands of people. It encourages businesses to be resourceful so that they can provide the best good or service for the least cost. An entrepreneur determines his net profit after subtracting the costs of all other factors of production. The distribution of *profit* is one characteristic that distinguishes the market economy of the United States from many other countries.

Goals

The students will:

1. Recognize a definition for *wage* and *profit*.
2. Determine net *profit* when given sample problems.
3. Identify the form of payment made to the factor of production, labor.
4. Explain the importance of the "*profit* motive."
5. Identify advantages and disadvantages of being an entrepreneur (business owner) and/or laborer.

Teaching Activities

1. **Group Problem-Solving.** Read the following story to your class: Two of Mike's classmates have decided to try to earn some extra money during their next vacation. Suzanne and Tim discussed different ways they could earn money and decided to try to run their own business. Suzanne and Tim weighed the advantages and disadvantages of different businesses and finally chose a lemonade stand. Mike overheard Suzanne and Tim planning their business and asked if he could join the group. Suzanne and Tim talked it over and offered Mike two alternatives. They think they can sell their lemonade for 25 cents a glass and make about 20 cents *profit* on each glass. They offer to pay Mike 25 cents an hour for working or ⅓ of the money they have left after paying their expenses. Mike intends to study his options carefully. It is your job to help Mike examine his choices and make a decision.

   Break the class into groups and give them time to make a decision for Mike. Write their decisions and reasons on the board. Discuss the different recommendations and then ask the following questions to stimulate more thought:

   1. Can you identify the *wage* Tim and Suzanne offered to pay Mike? (25 cents an hour)
   2. What is a *wage*? (The amount of money earned for producing goods or services over a specified time period)
   3. What was the other alternative Tim and Suzanne offered Mike? (Sharing the profits)
   4. Can you think of what we mean by the expression "*profit* motive"? (The opportunity to make money after paying for all the costs of production encourages people to take a chance and try to produce a good or service people want for the least cost.)

   Continue to read the story to the class. Mike decides to accept the offer to share in the *profits*. They opened their stand for two days and sold 150 glasses of lemonade.

   1. How much did they make on each glass of lemonade? (20 cents)
   2. Where did the other 5 cents go? (Pay for resources necessary to make lemonade.)
   3. Can you identify some of these resources? (Lemonade, glasses, stand)
   4. Net *profit* is the money left over for the entrepreneur(s) after paying business expenses. How much net *profit* did Mike, Tim, and Suzanne make? ($30)

   Optional: If they split the *profit* three ways and were open for a total of 16 hours, did Mike make the best decision? (Yes; as *wage* earner he would have made $4, as entrepreneur he made $10.)

2. **Labor vs. Entrepreneur Chart.** Introduce the topic with the following: What would happen if everyone wanted to be a worker? There must be different reasons why some people prefer to be laborers and others prefer to be entrepreneurs (business owners). Divide the class into small groups and create a chart showing the advantages and disadvantages of being a *wage* earner (laborer) or *profit* earner (entrepreneur).

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Labor		Entrepreneur	
	Disadvantage	Advantage	Disadvantage
no risk	no decisions	possible profit	risky
guaranteed wage	work for others	make decisions	may lose money

Problem-solving: Net Profit. In the following problems have students determine the resources (expenses) and the net *profit* of each business.

a. Sally and Karen run a babysitting business throughout their summer vacation. At the end of the summer, they figured they had babysat for 120 hours. If they charged 75 cents an hour for babysitting, what was their net *profit*? ($90) What were their expenses? (0)

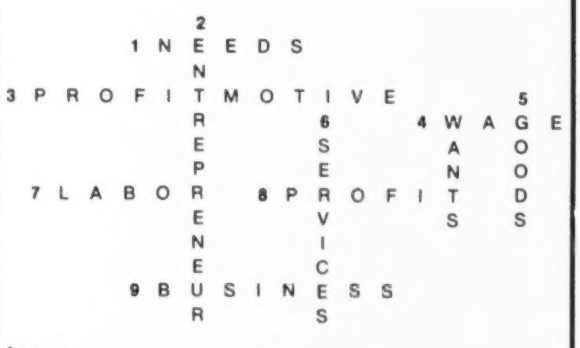
b. Bob and Larry started their own lawn-care service for the summer. They planned to divide their *profits* in half. Larry's father agreed to let them use his lawn equipment for no charge, but said they would have to pay for the grass bags and the gasoline to run the lawn mower. Bob and Larry charged $15 per lawn. By the end of the summer, they had mowed 100 lawns, purchased 20 gallons of gasoline at $1.20 per gallon, and 25 packages of lawn bags at $2 each. What were the total expenses encountered by the boys? ($74) What was Larry's net *profit*? ($713) What was Bob's net profit? ($713)

c. John and Marsha started a dog-walking service during the summer. Unfortunately things did not go too well for the team. They started out charging $1 per dog walk. By the end of the summer they had walked 25 dogs. However, on one trip one of the dogs got loose and ran through a woman's vegetable garden. John and Marsha agreed to pay her for damages, and she later presented them with a bill for $15. On another occasion one of the dogs ran away, and the owner demanded the children pay her the $25 she had paid to buy the dog. It was time for Marsha and John to go back to school and close their business. What were their expenses in the job? ($40) What was their net *profit*? ($ – 15) (A negative *profit* is called a "loss".)

d. Mark and Candy decided a great summer job would be to collect aluminum cans and resell them to scrap collectors. They knew they could get 30 cents per pound, and Candy's mother agreed to take them to the scrap collector at no charge. After collecting their first 150 pounds, they decided to expand their business. They told their two younger brothers, Joey and Jeffrey, they would pay them 15 cents a pound for cans they collected. By the end of the summer, Mark and Candy had collected another 300 pounds, and Joey and Jeffrey had collected 200 pounds. After returning from the scrap collector, how much money did Mark and Candy have? ($195) How much money did they owe Joey and Jeffrey? ($30) What was their net *profit* at the end of the summer? ($165)

4. **Business Field Trip and Bulletin Board: The Profit Motive.** Assign pairs of students to visit different businesses near their homes and ask the following questions of the business owners: What does the expression "*profit* motive" mean to you? Why is the "*profit* motive" important to the American economy? Have the students report to the class the results of their interviews. Create a bulletin board entitled, The *Profit* Motive is Important Because:, and have students draw pictures and/or write a few sentences to complete the bulletin board.

5. **Wage-Profit Crossword Puzzle.**



Across

1. People usually work for money that enables them to meet their wants and (needs).
3. Entrepreneurs risk starting a new business because of the (profit motive).
4. The amount of money earned for making goods or services is a (wage).
7. People who do jobs are (labor).
8. The amount of money earned by a business after paying all the costs of production is (profit).
9. An institution selling and/or producing a good or service is a (business).

Down

2. One who organizes a business is called an (entrepreneur).
4. Goods and services people would like to have are (wants).
5. Items produced by businesses are called (goods).
6. Duties people perform for each other are called (services).

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Correction

Because of an oversight, sources for Activities 6 and 7 in Vol. II, No. 3, "This Great Price Dilemma," by Sharon Flores, were not attributed to the Center for Economic Education, Univ. of Georgia; *Creative Activities in Economics for Middle School Students;* Elmer D. Williams, Editor.

(continued from page 1)

have been defined as a percent of national income or as a percent of sales. These definitions are valuable in particular situations, but probably the most common definition of *profit* and the most useful definition for the elementary classroom is simply total revenue minus total cost. *Profit* is the revenue or income that is left over after a business firm has paid all of its costs.

The problem, however, from the economist's view is what is included in costs. To illustrate, a business owner may have received $400,000 in revenues and may have paid $100,000 in wage costs, $100,000 in material costs, and $100,000 in capital goods costs, for an accounting *profit* of $100,000. The size of this *profit* is inflated, though, if the owner does not pay himself/herself a wage income comparable to what he/she could earn if working for others. If the opportunity cost of the business owner's time was $40,000, then the economic *profit* would be $60,000, not $100,000. *Economic profit* is what remains of revenues after the explicit costs (e.g., labor, capital, materials) *and* the implicit costs (e.g., opportunity cost of the owner's time) are subtracted. On the other hand, under the inflated accounting *profit* definition, only the explicit costs are subtracted from income.

The above distinction is probably too difficult for most elementary students. The use of total revenue minus total cost as the definition of *profit* is sufficient. The more advanced student may recognize the need for implicit opportunity costs in their calculations. But more important than a definition is the recognition of how the *profit* motive directs business behavior. Businesses will undertake new activities or continue present activities because of the expectation of *profits*. *Profits* are not guaranteed and expected *profits* can easily turn into unexpected losses. So, risk is involved in any business, and *profits* can be viewed as a reward for taking uninsurable risks. Where the risks are great, the expectation of *profits* also will have to be great to persuade entrepreneurs or business owners to produce the new products or provide needed services. *Profits* are an energizer for the economy, influencing how resources are used and affecting the level of investment, innovation, employment, and economic growth. Understanding the function of *profits* and incentives is a challenge and a valuable lesson for students.

UPCOMING ISSUES

by James Blake, Editor
National Center Foundation

This school year The National Center expects to produce four issues of **The Elementary Economist.** The first three deal with basic economic concepts whose names are familiar to all teachers and which affect the lives of students of all ages. In this issue we deal with "Wages and Profits" and their interrelationships. Our December issue will discuss "Productivity and Capital," that elusive ingredient responsible for much of America's material success. And in March **The Elementary Economist** will delve into "Public Goods and Services," a rapidly expanding area during the last half century.

Our final issue of this academic year will explore a concept the name of which may be new to our readers but the impacts of which are experienced by everyone almost daily. The theme of the May issue is "Externalities," by which is meant both the benefits and costs that society in general both enjoys and bears due to the actions of others. Pollution of the air and water as well as noise pollution, for example, is caused by organizations and individuals who pay only part of, if any, of the costs of its abatement. The remainder of its costs are borne by others in the absence of governmental regulation.

You Grade Us!

In response to **The Elementary Economist** teacher readership survey conducted last spring, we are pleased to announce that you seem to agree, almost overwhelmingly, that our publication is on target. At that point we had distributed five issues, and we received reply cards from 44 states from elementary school teachers responsible for the education of more than 631,500 children.

What you told us was this:

- The activities illustrating economic principles are entirely appropriate for the designated grade levels (94 percent).
- The children are enthusiastically and successfully learning economics (91 percent).
- Of the teachers responding, 31 percent were K-2, 33 percent were 3-4, and 36 percent were 5-6.
- A combination of long and short activities was preferred by 61 percent of our reader-teachers, and 38 percent preferred short activities.
- Most of the respondents (80 percent) felt that fuller explanations of the economic principles involved would be helpful, and 78 percent asked for more frequent issues.

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